

MULTIPLE CHOICE

- 1 An external cost is:
 - A A cost that a group of people pay for.
 - B A cost created by a firm which it pays for.
 - C A cost created by a group of people, or a firm, that others pay for.
 - D A cost created by society, that private firms pay for.
 - E A cost paid for by government.
- 2 In building an airport, the external costs might include:
 - 1 The price paid for the land.
 - 2 The loss of farming land.
 - 3 The noise caused by construction.
 - A 1 and 2
 - B 1 and 3
 - C 2 and 3
 - D 1 only
 - E 2 only
- 3 Which of the following are external costs resulting from the consumption of cigarettes?
 - 1 The cost of cigarette advertising.
 - 2 The irritation caused to people who don't like smoking.
 - 3 The medical care given to people who have smoke-related health problems.
 - A 1 and 2
 - B 2 and 3
 - C 1 only
 - D 3 only
 - E None of them
- 4 A particular use of resources is said to be economic if:
 - A Social costs = Private costs.
 - B Social benefits are greater than private benefits.
 - C Social costs are greater than social benefits.
 - D Private costs are less than private benefits.
 - E Social costs are less than social benefits.
- 5 If the production of a good or service results in high external benefits, but low private benefits, then:
 - A Private firms will produce more than society wants.
 - B Private firms will produce just enough to satisfy the wants of society.
 - C Private firms will produce less than society wants.
 - D Private firms will use resources to produce something else.
 - E The Government will produce the product.
- 6 Which of the following represents an external benefit?
 - A A firm that obtains a discount for buying materials in bulk
 - B A historic building blackened by traffic pollution
 - C An oil slick washed on to beaches
 - D An increase in a firm's revenue resulting from the success of its advertising
 - E A bigger supply of honey than usual for a bee-keeper thanks to his neighbour's garden flower display